

# Zagreb Office Market Pulse

H2 2015



## Stock and Supply

The rise in demand for office premises in Zagreb from both public and private companies has been reflected in greater construction activity in recent years. However, with the significant increase of supply and challenging economic conditions, Zagreb's office market has been put under pressure. As a result, up until mid 2015, there has been a gradual continual increase in the vacancy rate, which has particularly affected older schemes.

2015 was notable for the completion of the second phase of VMD Strojarska, totalling 18,700 sq m. The first phase was delivered during 2014, spread over 10,500 sq m. The entire complex also includes two residential buildings. The construction activity stalled during the second half of the year and there were no other new office schemes delivered.

Future supply remains uncertain, with several smaller scale projects with unclear delivery dates, totalling around 45,000 sq m. The pipeline of larger scale projects also remains on hold.

### Office schemes under construction

Property	Location	Size (sq m)
Avenija Projekt	Business District West	7,000
Conditum	Novi Zagreb	6,500

Source: JLL, January 2016

### Overall Statistics

**18,700 sq m / 18,700 sq m**  
Previous office completion / total 2015

**13,500 sq m**  
Upcoming supply

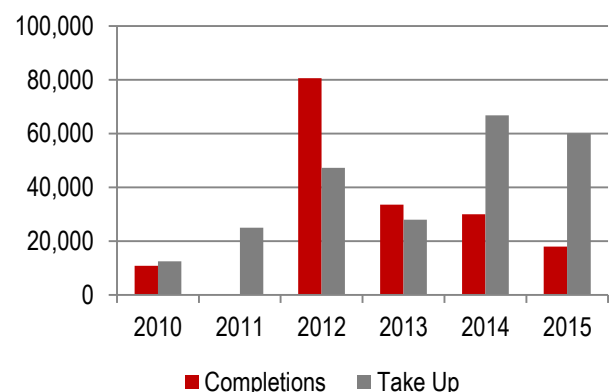
**45,000 sq m**  
Overall future office projects

**Take-up 2015**  
Driven by relocations and renewals

**Transaction location**  
The highest activity was noted in CBD and Business District East

**13.5 %**  
Vacancy rate in A&B Class office buildings

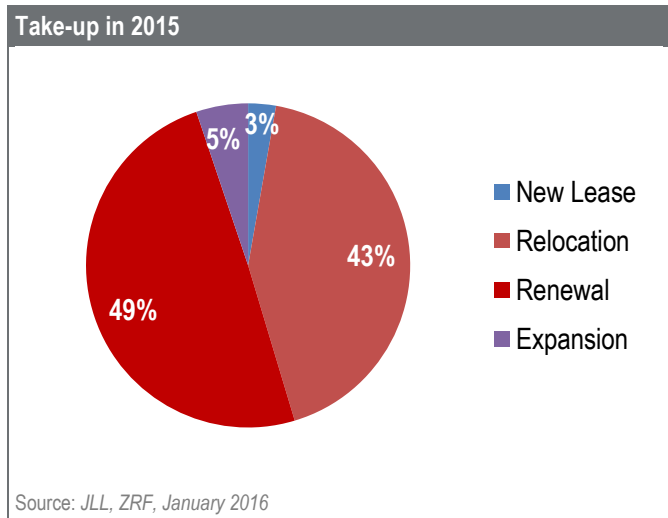
### New office supply and take up



Source: JLL, January 2016

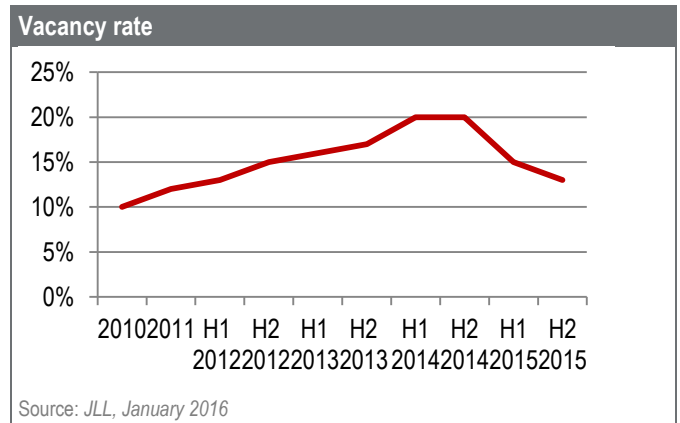
# Demand

During 2015, market activity was mainly driven by net take-up, including relocations, new leases and expansion deals. Occupiers continued to relocate to more flexible, higher quality modern schemes outside of the city center, to more developed areas within denser business zones. The majority of activity took place in the CBD and Business District East, which accounted both for more than 70%. The most active sectors were IT, followed by the financial, pharmaceutical and public sectors.



# Vacancy

During the second half of 2015, the vacancy level continued to drop and currently stands at 13.5%. This has been caused by the increase of net take-up, mainly relocations. Occupiers continue to relocate to modern office buildings, resulting in an increase of vacancy in lower quality schemes. The demand for modern office premises remained constant over the year, creating higher occupancy levels.



# Rental levels

During 2015, prime office rents in Zagreb remained stable ranging between €14 and €15 m<sup>2</sup>/month, with only a few exceptions exceeding this average. Market pressures continued to push rents down for office premises in secondary locations, which currently range between €8 and €11 m<sup>2</sup>/month. Tenants continue to expect a greater level of incentives including rent free periods and fit-out contributions. More downward pressure is expected for secondary properties, as tenants continue to relocate to modern schemes.

# Investment outlook

In 2015, the Croatian real estate investment market recorded increased interest. South Africa's Tower Property Fund has acquired an interest in the recently completed office building by VMD Grupa for a price of €23.7 million. The fund has also acquired four retail schemes from Agrokor, including two Konzum stores in Zagreb and Velika Gorica; Sub City shopping centre in Dubrovnik and Meridijan 16 in Zagreb, for €66.4 million overall. Growth was also noted among local investors which have acquired Avenue Mall in Osijek and a department store in the west part of Zagreb. In the upcoming period, the market will witness growing interest for well performing office, retail and mixed use schemes.

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